

DOCUMENT RESUME

ED 252 247

JC 840 605

AUTHOR Stumph, Wayne J.
 TITLE Financing Community Colleges--The Several Ways.
 PUB DATE Oct 84
 NOTE 21p.; Paper presented at a Meeting of the Association of School Business Officers (Atlantic City, NJ, October, 1984).
 PUB TYPE Speeches/Conference Papers (150) -- Reports - Descriptive (141)

EDRS PRICE MF01/PC01 Plus Postage.
 DESCRIPTORS *Community Colleges; *Educational Finance; Equalization Aid; *Financial Policy; *Financial Problems; Financial Support; *State Aid; Two Year Colleges

ABSTRACT

An overview and analysis of state funding for community colleges is provided in this paper. After noting the inadequacy of state financial support for community colleges and the inconsistency of funding methods, the paper identifies states with large community college systems and states with few community college districts relative to their size. Next, brief descriptions are provided of the funding formulas for state support operating in California, North Carolina, Alabama, Illinois, Ohio, New Jersey, New York, Arkansas, Texas, and Washington. The next section of the paper discusses the benefits of certain features of state funding formulas, i.e., full-time equivalent faculty formula factors, formulas that provide extra amounts for new colleges and small institutions, variable formula factors, and multi-factor formulas. Following this the paper looks at some of the negative consequences of particular state financing practices, including per credit hour allocation, appropriations made late in the fiscal year, enrollment ceilings, state-determined tuition rates, and contact hour formulas. Finally, ways of improving state financing are suggested. (LAL)

 * Reproductions supplied by EDRS are the best that can be made *
 * from the original document. *

ED252247

FINANCING COMMUNITY COLLEGES - THE SEVERAL WAYS

Dr. Wayne J. Stumph
Dean of Business Services, Retired
Reading Area Community College
Reading, Pennsylvania

Presented to the Association of School Business Officers
Atlantic City, New Jersey
October 1984

"PERMISSION TO REPRODUCE THIS
MATERIAL HAS BEEN GRANTED BY

Wayne Stumph

TO THE EDUCATIONAL RESOURCES
INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)

☐ This document has been reproduced as
received from the person or organization
originating it.

☒ Minor changes have been made to improve
reproduction quality.

• Points of view or opinions stated in this docu-
ment do not necessarily represent official NIE
position or policy.

TC 840 605

Financing Community Colleges - The Several Ways

State financing of community colleges is, after all, a fairly recent phenomenon. State support for community college education was practically nonexistent before 1950. Then, one by one, the states began to see the need for, and pass, legislation to support community colleges. The good news is that most states now support community colleges in some form and to some extent. The bad news is that the funding in most states is still far from adequate, and the methods of allocating the funding appropriated are inconsistent and too often nonproductive or even counterproductive.

First, let us look at the states and see how they compare.

I. States with large community college systems

<u>State</u>	<u>Number of Community College Districts</u>
California	70
North Carolina	58
Alabama	49
Texas	48
Illinois	39
New York	37
Michigan	29
Florida	28
Ohio	25
Virginia	23
Washington	23
New Jersey	19
Kansas	19

We can see that the large systems are generally in the wealthy and populous states, California, Florida, New York, Illinois, Ohio, Michigan, and Texas. Missing from the list are Pennsylvania and Indiana. An unusually large number of districts have been established in North Carolina and Alabama.

II. Other states have relatively few community college districts and colleges relative to the size of the state.

<u>State</u>	<u>Number of Community College Districts</u>
Maine	1
Idaho	1
Louisiana	1
North Dakota	3
West Virginia	3
Montana	3
Colorado	4
Nevada	4
Utah	5
Arkansas	6
Nebraska	6
Arizona	9
New Mexico	9
Missouri	10
Pennsylvania	14

Some relatively large and wealthy states, Arizona, Pennsylvania, and Colorado, have not created systems of community colleges accessible from all parts of the state. The establishment of community colleges throughout a state, as we observe in California, Illinois, North Carolina, Alabama, and elsewhere, is directly related to the interest of the state in providing finding and the funding mechanisms employed.

Most of the states with large numbers of community college districts have relatively sophisticated funding plans or formulas for state support, i.e.

California pays on an average daily attendance basis, distributing all taxes collected for community colleges based on average daily attendance in allowed curriculums.

Small California community colleges receive extra allocations up to 1.6 times the state average.

North Carolina pays for actual FTE, but protects the college to 90 percent of prior year support. North Carolina also funds programs of special interest and priority in the state such as new industry training, visiting artist, apprentice programs, etc.

Alabama funds junior colleges on the basis of credit hours produced and technical colleges on the basis of weekly contact hours. Small colleges receive a higher rate. Health related and other voc tech programs

receive higher rates than academic courses.

Illinois pays on the basis of credit hours recorded with large differentials in rates. Highest support rates are paid for health related credits, with baccalaureate and technical occupational courses the next highest rates, and business occupations and general studies the lowest.

Illinois law requires each school district in the state to become part of a community college district. The community college districts have taxing authority up to state set limits. Districts with less than average tax receipt potential receive state equalization grants.

Ohio supports community colleges based on a sophisticated formula similar to a formula in use for Ohio's universities, and dating back to the period when John D. Millett was Ohio's chancellor for higher education.

Support for direct instructional and support costs are allocated on an FTE enrollment basis; student services are allocated on the basis of headcount enrollment; plant costs on a per square foot formula. Library acquisitions are based on an index of academic programs. Actual costs observed are projected for enrollment estimates and inflation factors. Additional indexes are used for size, evening programs, and plant utilization.

New Jersey has an expenditure based formula for allocation of 94 percent of the total annual appropriation. 6 percent is retained for categorical support, but colleges are guaranteed prior years' support levels.

New York also funds community colleges on a per FTE rate, but uses a moving 3 year average cost factor. The factor is increased for technical and business programs and for districts with lower tax base.

Arkansas has only 6 community college districts, but has one of the better and more sophisticated formulas. Instructional and public service amounts are computed using FTE faculty; FTE students are used for other departmental, academic, and scholarship support. Mean enrollment is used to calculate student services support. Gross square foot data is used for plant costs and inventory for equipment replacement. Rate adjustments are made for voc tech programs.

Texas uses an analysis of base period costs by HEGIS discipline area, and adds an inflation factor to develop a budget proposal based on contact hour production. This formula analyzes direct costs, departmental costs, and general overheads. The state funds no building or plant costs. Local districts have taxing authority to provide for plant costs. The legislature may modify the formula rates.

Washington also uses a very sophisticated formula calculation for its community college support. Washington uses a factor of the rates of FTE student to FTE faculty, and adds support for equipment, plant, certain personnel costs, institutional support, and financial aid.

Things I Like About State Financing

I. FTE faculty formula factors. What really determines the cost of a college? The cost of the faculty. The faculty member is paid, usually the same amount, if the class enrolls 5 or 500. We all know that faculty cost per credit hour produced varies considerably depending upon accreditation rules, manageable class size, length of laboratory work needed. Yet, most formulas based on credit hours or FTE students provide less state support for high cost programs than for programs in which a faculty member can handle 5 classes of 50 students each.

II. Formulas that provide extra amounts for new colleges and small colleges. Start-up costs are real. Illinois granted each new class I district \$100,000 for start-up costs in the '60's. This

allowed planning time, staffing time, and in most cases guaranteed a good beginning. Small colleges need greater proportional amounts of overhead support than larger colleges. Many costs are the same for large colleges and small colleges. Membership fees, conference costs, etc, are usually one price. Large and small colleges usually have one president, one business officer, and one dean of students each. There may be small differences in compensation, but not nearly to scale. Also, I have a private theory that it is more difficult to run a small college than a large one and, therefore, worth more, not less.

The National Association of College and University Business Officers reported in the Chronicle of Higher Education that the economics of scale between large community colleges (over 15,000 enrolled) and small community colleges (less than

5,000 enrolled) was less than they expected. They reported average costs for 1982-83 at \$3,126 per student at larger colleges, and \$3,433 per student at smaller colleges, a difference of only 10 percent in cost per student. This narrow spread does not surprise me. At least 31 of 46 states responding to a NACUBO sponsored study done by Gary Winger, of Jamestown Community College, contribute dollars on some type of per student basis. Even more important is the very obvious, but seldom mentioned, fact that each community college spends nearly each dollar it receives. Public colleges do not usually accumulate profits as surplus or pay dividends as businesses do, so there is no incentive to control spending other than the limits of dollars available.

Small colleges, in the absence of extra state appropriations, cope with fewer dollars by lowering salaries and limiting staff. They also reduce quantities and the quality of supplies and materials. If the problem of inadequate support for small size colleges is not addressed, many states will find opportunities for tomorrow's high tech jobs limited to residents of large wealthy urban districts. In 1983, only 15 of the 46 states reported some form of equalization payments to small or economically disadvantaged districts.

III. Variable Formula Factors

- A. Square footage formula factor for plant costs.
- B. Head count formula factors for student services.
- C. Program content formula factors for library and instructional materials acquisitions.
- D. Special allocations for development of new programs or service areas.

E. Special allocations for services for handicapped
or disadvantaged students.

F. The Arkansas allocations for equipment
replacement.

IV. The states which have made significant efforts
through multifactor formulas. Analysis of costs,
local ability to pay, etc, figure in their support
plans for public community colleges.

Illinois	New York	Nevada
California	Alabama	Arizona
Ohio	Washington	Texas
Arkansas	Wisconsin	Florida

THINGS I LIKE ABOUT STATE FINANCING

- I. FTE FACULTY FORMULA FACTORS.
- II. FORMULAS THAT PROVIDE EXTRA AMOUNTS FOR NEW COLLEGES AND SMALL COLLEGES.
- III. VARIABLE FORMULA FACTORS.
- IV. THE STATES WHICH HAVE MADE SIGNIFICANT EFFORTS THROUGH MULTIFACTOR FORMULAS.

Things I Do Not Like About State Financing

I. Per credit hour allocations.

A. Direct costs are measured per class not per student.

B. Overheads have only a small correlation with credit production.

C. Colleges are encouraged to build credit hour numbers.

1. Colleges have cheated.

2. Student retention policy carries a financial reward or penalty.

3. Colleges tend to pack too many students into classes.

4. Colleges are pressured into large classes taught by part-time, low cost faculty.

II. Budgets on a string. When appropriations or allocations lapse, responsibility shifts from custody of the money to spending the money.

A. Purchasing decisions are rushed.

B. Bid procedure may be abandoned.

C. Unnecessary items or guarantees may be purchased.

D. Budgets are artificially inflated or deflated.

III. Appropriations or allocations made late in the fiscal year.

A. Rushes planning.

B. Corrupts budgeting and purchasing.

IV. State retention of tuition. When the state refuses to allow the college to retain and spend wisely, the revenues collected locally, all financial incentive to set appropriate rates and conserve funds is absent.

V. States which limit participation to a maximum percentage or enrollment ceiling.

A. Such rules compound the problems of colleges with weak local funding bases.

B. High tuition is encouraged.

C. Dollars are not equitably distributed.

VI. States which set local community college tuition rates. Local share of community college support may come from student charges, local taxes, contributions, or entrepreneurship by local trustees and administrators. Local administrators and trustees are better prepared to select and implement the appropriate ways of providing the local share.

VII. Contact hour formulas. Contact hours are difficult to count and audit. Furthermore, contact hours are only incidentally related to costs.

THINGS I DO NOT LIKE ABOUT STATE FINANCING

- I. PER CREDIT HOUR ALLOCATIONS.
- II. BUDGETS ON A STRING.
- III. APPROPRIATIONS OR ALLOCATIONS MADE LATE IN THE FISCAL YEAR.
- IV. STATE RETENTION OF TUITION.
- V. STATES WHICH LIMIT PARTICIPATION TO A MAXIMUM PERCENTAGE OR ENROLLMENT CEILING.
- VI. STATES WHICH SET LOCAL COMMUNITY COLLEGE TUITION RATES.
- VII. CONTACT HOUR FORMULAS.

What Can We Do To Improve State Financing

- I. Advocate the collection and reporting of state appropriations and systems on a regular basis. The study of public community college finance, published by NACUBO and the educational commission of the states, should be improved and regularly up-dated.
- II. In addition to the organizations that we belong to now, we should all join and support the American Association of Community and Junior Colleges newest affiliate counsel, the National Council of Community College Business Officials.
- III. We should use this new council to promote simple, easy to understand enhancements to state funding plans for community colleges.

ERIC Clearinghouse for Junior Colleges
8118 Math-Sciences Building
University of California
Los Angeles, California 90024

FEB 22 1985 21